

# **TRANSFORMING AFRICA: FROM NATURAL RESOURCE DEPENDENCE TO SUSTAINABLE GROWTH AND DEVELOPMENT**

## **What Can Research Do?**

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# Outline

- Introduction: The Development Challenges
- Macroeconomic Management and Political Economy of Development
- Industrial Policy for Structural Transformation
- Modernization of Agriculture
- Managing Natural Resource Exploitation
- Poverty and Social Protection

# Development Challenges

- African countries have generally experienced erratic and usually unimpressive growth.
- Economic growth has often been driven by developments in world market prices for exports, primarily natural resources.
- Where natural resource export receipts have been well managed, there has been better economic performance than in other places.

# Development Challenges (contd)

- In the six years before the current financial crisis many countries experienced much faster growth than had been usual in the region.
- In 2007, 10 countries grew at more than 6.5% per annum, with average annual growth of 6.3%. In 2008, this dropped to 5.2%.

# Development Challenges (contd)

- The commodity boom led to a number of issues about the management of additional revenues in relation to achieving long-term growth and development.
- Growth for 2009 is projected at less than 3%, less than half of the 2008 figure.
- Oil exporters have seen their projected revenues cut to less than half of what they anticipated a year earlier.
- Zambia saw the price of copper fall sharply, yielding less than a half of projected revenue in 2008.

# Development Challenges (contd)

- The recent experience has rekindled debates about the need for African economies to have a more diversified base for more sustainable growth and development.
- Many analysts see limited opportunities for structural transformation, i.e. a “process whereby a predominantly agrarian economy is transformed into a diversified and productive economy dominated by manufacturing and services”.
- Skepticism is based on the perception that African countries lack the institutions that would support such a transformation.

# Why Research to Support Structural Transformation

- There has never been agreement on how best to achieve structural transformation: import-substitution industrialization failed to achieve the expected transformation
- Efforts at large-scale commercial farming were unsuccessful .
- The role of the state in the process of transformation was never properly concluded .
- Many countries never paid attention to generating the required human capital for pursuing strategy adopted.

# Macroeconomic Management and the Political Economy of Transformation

- African countries have in the past pursued macroeconomic policies that led to self-destruction.
- Structural adjustment did not necessarily solve the problem.
- More recently, very conservative macro policies have led to tensions on how public spending should be conducted.



# Macro Management (contd)

- ***How can governments mobilize additional resources and what will be the likely effects of additional external resources on economies?***
  - Requires studies of management of real exchange rate looking at aid absorption and spending options. Innovative ways of adjusting the real exchange rate to deal with Dutch disease and the effects of supply and demand are important.
  - What exchange rate regime encourages private flows? It is also important to understand better the links between exchange rates and economic growth in the African context, in view of the distinct structural and institutional constraints.

# Macro management (contd)

- ***What are the options for sterilization and inflation management?***
  - What domestic sterilization tools work best for African countries and which foreign sterilization opportunities are most effective for achieving macroeconomic stability?
  - How do/should governments make choices between domestic and foreign sterilization options?

# Macro management (contd)

- **What macroeconomic policies assist best in domestic resource mobilization?**
  - What will be the cost of mobilizing additional tax revenues?
  - How far can the tax net be extended?
  - What taxes are least regressive in the African context?
  - What fiscal policies encourage new domestic investments and under what conditions will this occur?
  - Indeed how can public expenditures crowd in private investment?
  - What are the links between fiscal policy and economic growth within the African institutional context?
  - What fiscal regime will encourage resources to be moved into priority areas?

# Macro management (contd)

- ***What public expenditures generate the best outcomes?***
  - As the requirements for additional public spending increase, how should the pressures for new expenditures be managed politically?
  - How should/do governments pursue smart public spending to generate the most effective and efficient outcomes?

# Macro management (contd)

- **How can governments maintain sustainable debt levels?**
  - What are the best means for assessing the dynamics of external debt?
  - How should governments determine the appropriate levels of fiscal debt?
  - What is the link between debt and economic growth?
  - How should governments organize their debt management/monitoring systems to ensure greater efficiency?

# Industrial Policy for Structural Transformation

- Industry – including tradable services and agro-industry – is most often the leading high productivity sector.
- Recent research suggests that for most low income countries long term growth, job creation, and poverty reduction depend on a competitive and increasingly diverse and sophisticated industrial production and export structure.
- The question remains: can governments play a successful role in accelerating the process of structural change through industrialization?

# Industrial Policy (contd)

- ***What is the role of exports in Africa's industrialization?***
  - Early explanations of the East Asian “miracle” often identified learning through exporting as a key driver of productivity change and growth.
  - More recently there has been less agreement among researchers as to whether exporting makes a difference to productivity growth in all country settings.
  - Answer is important because the public policy implications of learning by exporting are straightforward but powerful. To the extent that productivity improvements in industry are linked to learning through exports, an “export push” strategy, involving a concerted set of policy and institutional reforms to promote manufactured exports may boost growth.

# Industrial policy (contd)

- ***Will lack of skills constrain Africa's ability to compete?***
  - Africa faces a growing skills gap with the rest of the world.
  - East Asian countries, starting from a higher base, increased secondary enrollment rates by 21 percentage points and tertiary enrollment rates by 12 percentage points between 1990 and 2002.
  - Africa raised its secondary rates by only 7 percentage points and its tertiary rates by just 1 percentage point.
  - What implications will the lack of access to post-primary education in Africa have for its ability to compete? Do countries in the region need a new education strategy to succeed in the global economy?



# Industrial policy (contd)

- ***Can Africa compete without industrial clusters?***
  - Manufacturing and service industries often cluster in concentrated geographical areas as proximity to other firms raises productivity.
  - In contrast with emerging Asia, Africa has few large industrial agglomerations.
  - There is little knowledge about role of industrial clusters in low income countries, making it difficult to tell whether the very different spatial distribution of industry between Africa and Asia matters.
  - Comparative analytical work may be help in revealing the nature of agglomeration economies in low income Africa and Asia and in guiding new approaches to spatial industrial policy.

# Industrial policy (contd)

- ***Can foreign direct investment build Africa's industrial capability?***
  - While Foreign Direct Investment (FDI) has often been central to export success by local firms in Asia, we know little about the nature of the interactions between large scale, foreign-owned firms and domestic firms in Africa.
  - A key unanswered question is whether there are knowledge transfers that occur between FDI and the local economy. Understanding the nature of such interactions can help African governments in their bargaining with foreign investors.

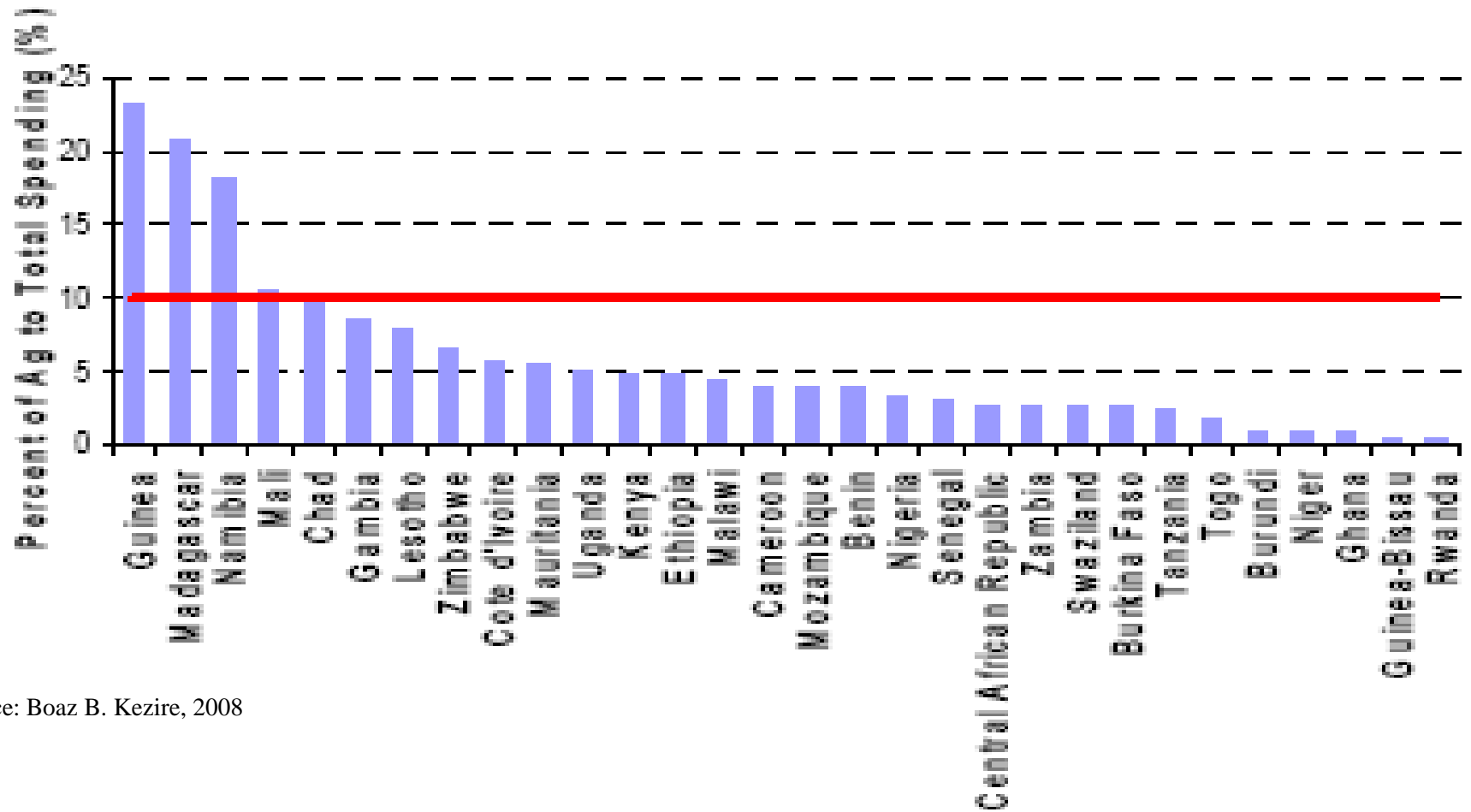
# Industrial policy (contd)

- ***Does ethnicity constrain enterprise development in Africa?***
  - Ethnic networks play a role in determining size distribution and growth of enterprises in Africa. African owned firms are generally smaller, less inclined to export and grow more slowly than firms owned by expatriates resident in the country or foreign direct investors.
  - Recent research suggests that networks raise the performance of “insiders” but in Africa’s difficult business environments they also limit the entry and expansion of “outsiders,” such as small, indigenous enterprises.
  - Can and should governments address the role of ethnic networks as barriers to the entry and exit of firms? What sorts of institutional and policy innovations are appropriate?

# Modernizing Agriculture for Structural Transformation

- Many reasons have often been assigned for the poor performance of African agriculture, often similar for all countries.
- Most African countries devote less than 5% of total expenditures to agriculture despite the fact that they have pledged among themselves to devote as much as 10% of national budgets to the sector

# Figure 1: Agricultural Spending in Africa



Source: Boaz B. Kezire, 2008

# Modernizing Agriculture (contd)

- Low spending on agriculture is summed up in the limited use of new inputs that lead to high yields.
- While the rest of the world has moved much faster, relying on new technologies and innovations that are generally well known, this has not happened in Africa.

# Modernizing agriculture (contd)

- **What is the nature and magnitude of the knowledge gap between African agriculture and that of the rest of the world, and what explains this?**
  - What is the nature of human capital development programs in agriculture?
  - Are there better ways of transmitting new knowledge and information to farmers and how can these be assessed/evaluated?

# Modernizing agriculture (contd)

- **In the light of climate change, how are African farmers adapting to the new environment?**
  - Are adaptation practices meaningful, effective and efficient?
  - What are governments doing about adaptation and are policies and programs effective?
  - What are the implications of adaptation practices for long-term growth?



# Modernizing agriculture (contd)

- ***What is the strategy that governments have for the modernization of agriculture?***
  - Do these provide adequately for the development of value chains that link agricultural development to other sectors?
  - What policies support the development of value chains and how can these be assessed for effectiveness?
  - Do government strategies attract financial and human resources to agriculture and related activities?
  - Are there assessments of these strategies in terms of their contributions to structural transformation?

# Modernizing agriculture (contd)

- ***How is the institutional framework for the promotion of agriculture organized?***
  - What relationship between the public sector and the private sector is most conducive to the transformation of agriculture?
  - What role should the state play in supporting agriculture?
  - How should the provision of agricultural infrastructure be organized?

# Modernizing agriculture (contd)

- ***How best should land tenure reform be carried out?***
  - Is it possible to carry out land tenure reforms in which the winners far outnumber the losers, or indeed in which there are no losers?
  - What institutional arrangements are most conducive to land tenure reforms?
  - How can land tenure reforms be evaluated?

# Natural Resource Exploitation for Long-Term Growth

- Natural resources will continue to be an important source of revenue to finance development and in some cases the resources could be inputs for industrial production.
- For natural resources to contribute to long-term economic growth and development there is a need for their prudent management and efficient use.

# Managing natural resources (contd)

- ***Under what conditions do natural resources facilitate structural transformation?***
  - Important to understand how transfers of revenue from natural resources to other sectors can be done without jeopardizing future investments in exploitation of the natural resource.
  - What is crucial is the determination of how productivity gains in the other sectors can be maximized in the medium term.
  - What are the best mechanisms for making the transfers?

# Managing natural resources (contd)

- ***What are the most appropriate ways of managing rents arising from natural resource exploitation?***
  - There are fairly standard proposals from the literature on the management of rents, especially with regard to reserve management. How do these apply in specific country contexts given the nature of country institutions?

# Managing natural resources (contd)

- **How are redistribution issues best managed?**
  - Communities in areas where natural resources are found believe they have a greater right to the rents flowing out of it than others.
  - Since they suffer more from the externalities associated with the exploitation, including adverse changes to the environment, how can they be compensated for their legitimate losses without creating social and political tensions?

# Managing natural resources (contd)

- **What are the best methods for managing contracting issues?**
  - It is not obvious that countries always have access to the best advice on contracting matters.
  - Research needs to be done to determine which contracting arrangements are most appropriate for which resources and under which political and social circumstances



# Poverty and Social Protection in Transforming African Economies

- While the link between growth and poverty has always attracted attention, there is still work to be done on the transmission mechanisms between the two. How do they feed into each other and under what circumstances?
- It is important to undertake research that makes clear for countries policies that allow poor households and individuals to benefit from and contribute to faster growth.

# Poverty and social protection (contd)

- Although African governments have made major strides in making education accessible to the general population, access varies widely across the African countries. Research should focus on approaches to maximize access given resource constraints.
- In health, research should focus on evaluating the cost of poor health and even more important the most effective ways of dealing with health services delivery.

# Poverty and social protection (contd)

- A primary focus of research should be on how best to design and implement social protection policies that maximize participation in market related activities.

# Conclusion

- Structural transformation is essential for sustained growth and development in Africa.
- It is through new relevant research that greater innovativeness in the management of economies will result, leading to structural transformation.